



EPICORE NETWORKS INC.

1994 Annual Report



NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Epicore Networks Inc. will be held at 10:00 am on Thursday, October 27, 1994 at the Calgary Petroleum Club, 319-5 Avenue S.W., Calgary, Alberta, Canada. Shareholders and others interested in the affairs of the company are welcome to attend.

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Epicore Networks Inc. is engaged in the development, manufacturing and marketing of innovative, environmentally friendly biotechnology products based on the use of natural enzymes and microbes to solve a broad variety of industrial, commercial and consumer problems. The company's products and services have applications in cleaning and sanitation, agriculture, aquaculture, food processing, waste water treatment, pollution control and environmental remediation.

C O R P O R A T E P R O F I L E

Epicore's environmental microbiology expertise is founded on the science and technology of Dr. Howard E. Worne, one of America's most pre-eminent microbiologists, who is internationally recognized for his contributions to environmental science and biotechnology.

Dr. Worne has developed one of the world's most comprehensive arrays of multi-complex organisms for use in environmental microbiology.

Headquartered in Calgary, Canada, Epicore Networks Inc. was established in 1990 and, since 1993, has been dedicated to its core business of biotechnology products and services. The company is now progressing from the product research and development stage to the manufacturing and marketing stage. It is manufacturing bio-enzymatic products at its plant and actively pursuing market development opportunities for its products and services in a number of international locations.

Epicore Networks Inc. is a public company with shares listed on the Alberta Stock Exchange (stock symbol EPN).

The year to June 30, 1994 was marked for Epicore Networks Inc. by a major recapitalization and restructuring of the company. These events represent a watershed in the history of Epicore and will enable it to address the opportunities which the expanding biotechnology market offers.

REPORT TO OUR SHAREHOLDERS

The recapitalization of Epicore involved a private placement in the United Kingdom of four million common shares from Treasury and the sale by two shareholders of one million shares. Purchase of these shares was effected by T. Hoare & Co. Ltd., a brokerage house in the U.K. which acquired the shares on behalf of a number of mainly institutional investors. The shares were issued and sold at a price of \$3.00 per share.

A warrant to acquire one million common shares of Epicore was issued to GFM International Investors Ltd. at a cost of \$1.00. The warrant is exercisable to acquire common shares at a price of \$5.00 per share until December 31, 1998.

Mr. John Follgard disposed of all of his holdings in Epicore and agreed to the cancellation of five million shares of Epicore which were subject to performance escrow. In addition, options held by Mr. Follgard to acquire three hundred thousand common shares in Epicore were cancelled. Mr. Ian Fortune agreed to the cancellation of 1.6 million shares, out of a total of five million shares held in escrow, with the balance of 3.4 million shares now being subject to a timed release as opposed to the performance escrow to which they were previously subject.

As part of the reorganization of Epicore, the processes and products developed by Dr. H. E. Worne of Worne Biotechnology Inc., and previously licensed by Epicore, were acquired for a price of US\$2,000,000 and the issue of one million shares of Epicore which are subject to a performance escrow.

The refinancing of the company has enabled Epicore to finance the construction of its initial production and research and development facility at Mt. Holly, New Jersey. This plant is dedicated to the production of Epicore's environmentally responsible biotechnology products and will support Epicore's plans for the continued commercialization of new products which are in research and development stages.

The corporate restructuring has seen the simplification of the corporate organization with the transfer of assets from Environmental Biotechnologies Inc. and Environmental Network Inc. to Epicore and the winding up of these two companies. A new management team has been put in place with revised authorities and responsibilities focused upon Epicore as the core company within the corporate structure. As part of the reorganization, Epicore disposed of its interest in DGS Computers Inc. to concentrate on the core business of environmental biotechnology products and services.

In recognition of the importance of the developing markets in Southeast Asia, PT Environmental Network Indonesia, previously the licensee for the Epizym Series in Southeast Asia, was acquired as a wholly-owned subsidiary. Restructuring of Epicore's licensing and corporate arrangements in this area has progressed substantially.

Largely as a result of the reorganization, the Board of Directors has changed significantly. Mr. William Lomow, previously President and Chief Executive Officer, became Chairman of the company. Messrs. John Follgard, Glen C. Sather, Patrick J. Bibby and Jason Deyholos resigned from the Board and

Mr. J.M. Fraser, whose appointment to the Board was announced in the 1993 Annual Report, was appointed Chief Executive Officer on January 1, 1994. Mr. Peter G. Goodliffe, Managing Director of OCS Limited, was appointed to the Board on January 5, 1994 and, on August 10, 1994, Dr. Gordon Kluzak resigned. The present composition of the Board is shown on page 20 of this Annual Report. The Board wishes to extend its thanks to the Directors who have left the Board for their contributions to the company.

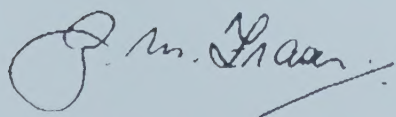
The past twelve months have seen the emergence of a large number of potentially competitive companies and products. Given a belief in the superior quality of the Worne technology and a strategy to continue to develop the company's research and development capabilities, Epicore has concentrated on developing its marketing strategy. This is based on identifying major industrial and commercial applications for its products, allowing it to sell its products through existing distribution channels. This has meant continuing and, at times, frustratingly extended testing and trials of the principle products which Epicore is introducing into the marketplace. Nonetheless, the successful completion of these trials, and the convincing of major customers that Epicore's products can bring significant performance and cost benefits to them, is expected to give Epicore a significant competitive edge in the market, enabling it to counter competitive products of poorer performance and lower cost. It is not Epicore's strategy to build large sales organizations to sell products at "point of use", but to develop its competencies in market areas selected for its ability to solve specific, sometimes complex, customer problems.

The financial results of the company reflect significant costs of recapitalization and restructuring, but the refinancing has left the company in a strong financial position to develop its markets, technologies and production facilities. In this latter regard, Epicore will look to locating future production plants in those territories where its principle markets develop rather than expanding its new facility in New Jersey.

The year has been marked by a number of successful trials of the company's products, most noticeably in the agricultural field. Important trials are about to commence in the aquaculture industry which, if successful, will establish Epicin as a market leader in this dynamic and growing market.

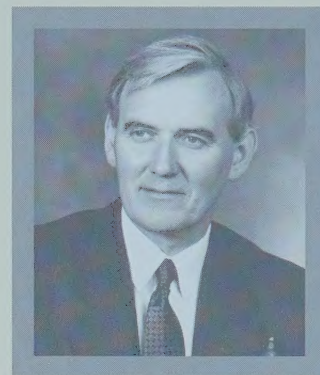
The past year has seen major changes which have positioned Epicore to take advantage of its technologies and the growth of its markets. It is the company's strategy to position itself as a world leader in solving environmental pollution problems through the progressive development of its microbial and enzyme technologies and by the expansion of its technical expertise. The effects of the past year have seen the company well advanced in the implementation of that strategy.

On behalf of the Board of Directors,



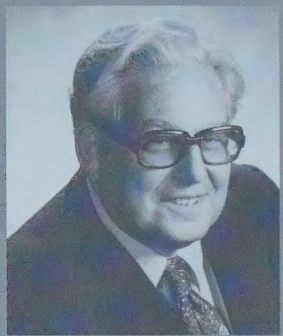
J.M. Fraser
Chief Executive Officer

August 15, 1994



J.M. (Ian) Fraser has been associated with Epicore since 1993, when he became a Director of the company; on January 1, 1994, he was appointed Chief Executive Officer. Prior to joining Epicore, Mr. Fraser was Managing Director of British Aerospace Enterprises Ltd.

A Chartered Accountant, Mr. Fraser has over 30 years of senior executive management experience in a wide range of international industrial and commercial sectors. His background includes positions as Head of Corporate Strategy and Planning for British Aerospace, Financial Director of the U.K. based Low & Bonar group of international companies, and Executive Director of a U.S. owned investment bank. Mr. Fraser is based in London, England.



Dr. Howard E. Worne has been associated with Epicore Networks Inc. since the company's inception in 1990. At present, he is the Honorary Chairman of the Board of Directors.

Dr. Worne is also President of Worne Biotechnologies Inc. of Mt. Holly, New Jersey.

Recognized as one of the world's leading microbiologists, Dr. Worne is enjoying a career spanning more than 50 years, the majority of which have been devoted to biotechnology. His work in life sciences and environmental sciences has taken him all over the world. He has received numerous awards and honours, and has published more than 150 scientific papers in various disciplines. His most recent book, Introduction to Microbial Biotechnology Including Hazardous Waste Treatment, was published in 1992. Dr. Worne received degrees as Bachelor of Science (1938), Doctor of Medicine (1940), Doctor of Philosophy -Biology (1957), and Doctor of Philosophy -Biochemistry (1962).

Throughout the industrial world, the general public is now aware of the tremendous quantities of hazardous and toxic wastes that are contaminating our terrestrial and aquatic environments. The microbial world offers practical solutions to many of the problems of today which have been created by these wastes.

The vast array of microorganisms that inhabit the planet are, without question, one of our most valuable resources. They possess almost unlimited biochemical capabilities. They are nature's huge army of willing workers.

Millions of years before dinosaurs first appeared on earth, an immense unseen microbial population already existed; it was among the earliest life forms to appear on the planet. It is only within the last one hundred years that we have begun to understand their wide assortment of productive as well as destructive capabilities.

Man has only used microorganisms with scientific precision for approximately 75 years and is constantly trying to isolate, identify and develop many new types of bacteria, actinomycetes, fungi and yeasts from among the many thousands of known microbial species which have already been discovered and described.

Microbes have helped man, for example, by fixing atmosphere nitrogen to enrich agricultural soils, resulting in more abundant food supplies. Microbes can manufacture proteins, amino acids, fats and vitamins as food and feed supplements. They mediate in many industrial processes and produce a wide variety of steroids and antibiotics for fighting diseases in animals, plants and human beings.

During the past 50 years, microbiologists and bioengineers have utilized a variety of industrial microbial fermentations to produce billions of pounds of organic acids, alcohols and many other chemical intermediates. These, in turn, are used in the synthesis and formulation of pharmaceuticals, pesticides, paints, plastics, dye stuffs for colouring textiles and plastics, and flavourings for foods and beverages.

Man has accumulated sufficient knowledge to begin utilizing the vast potential of these amazing microbial “chemists”.

A wide variety of microorganisms have been used to produce many enzymes that convert starches into sugars, hydrolyse complex proteins into soluble peptides and amino acids, de-size textiles, dehair hides prior to tanning, chill-proof beer, isomerize glucose to fructose, hydrolyse cellulose to sugar and clarify fruit juices, wines and jellies by solubilizing pectins.

Man has finally been able to put his most valuable microbial allies to work in a variety of industrial processes for the production of a multitude of diverse and useful products.

At Epicore, we are deeply committed to participating in the continuing development of modern biotechnology.

We have identified, isolated and cultured many species of bacteria, each with specific bioremedial activities. The biological cleaning abilities of these microorganisms have been intensified through natural selection processes and the cells have been cultured using standard industrial fermentation technology. The optimal growth conditions for each species of bacteria are monitored while the purity of each culture is carefully maintained. We harvest the bacteria or their enzyme products from the culture media in which they are grown and then process them for industrial and commercial use through proprietary drying and encapsulation techniques.

Epicore is harnessing some of the many powerful capabilities of nature's own workforce, developing innovative products with exceptional performance characteristics, and providing practical solutions to some of the problems of today.



Around the world, governments have placed environmental concerns high among their priorities. Since 1987, governments have enacted legislation requiring polluters to clean up their waste. They have set targets for waste production for the next century, and placed taxes on pollution.

While the most rigorous environmental laws have been passed by developed countries, international pressure has prompted developing countries to pass environmental laws. Opinion polls continue to reveal that the general public is genuinely concerned about global environmental protection.

The environmental movement will likely be a strong influence for years to come, shaping business decisions while companies continue to search for short-term solutions for reducing their current production of waste materials.

This global call to action has created many opportunities for the development of environmentally friendly solutions to environmentally unfriendly problems.

Preparing for Commercialization

During the past year, we proceeded with the planning and implementation of Epicore's progression from a company involved primarily in product research and development to one also involved in product manufacturing and marketing. As product trials continued to prove commercial potential, we strengthened our marketing capabilities, refined our marketing strategies, and initiated construction of our

own plant to support the continuing commercialization of our products. Until now, Epicore's products have been produced by a custom producer.

OUR OPERATIONS & ACTIVITIES

A Milestone Event

Operational activities undertaken during the past fiscal year culminated in August, 1994 with the opening of Epicore's pilot manufacturing and laboratory facility in Mt. Holly, New Jersey. Commercial production will commence in September. The new plant will enable the company to produce its current requirements of concentrated microbial products.

The Mt. Holly plant has the capability of producing both solid and liquid concentrates. Its location on the eastern seaboard of the United States is strategically suited for the shipment of bulk products and liquid concentrates by land to North American markets, and by air and sea to international markets. Bulking up of solid products, dilution of liquid concentrates, and packaging will be done in locations closer to the products' point of use.

Facilities include a fully developed chemical and microbiological laboratory. Having research and development facilities within the new plant means that Epicore can undertake test work for "designer" products aimed at solving specific problems in particular markets.

Staffing of the Mt. Holly facility began in the summer of 1994 with the employment of a plant manager, senior microbiologist, senior analytical chemist and a junior microbiologist. When the plant is fully operational, it will employ approximately 16 people.

Focus on Marketing

At Epicore's head office in Calgary, Canada, a small but efficient team of people is involved in coordinating product and market development, determining marketing strategies, and providing direction and support for international marketing activities. Ultimately, a variety of marketing methods will be used to roll out Epicore's products, including distributors and manufacturers' representatives. Some arrangements have already been made with distributors in Canada, the United States, Indonesia and the United Kingdom.



Ian Fortune, Executive Vice President, is one of the founders of Epicore. Prior to helping to establish the company, he was Regional Operations Manager, Environmental Division, Newalta Corporation. A graduate Marine Engineer from Glasgow College Nautical Studies in Scotland, Mr. Fortune has fifteen years of international experience with Shell Oil U.K. Ltd. and Chevron International Oil Inc. as Senior Operations Engineer on assignments worldwide. Mr Fortune has co-authored papers presented to the Environmental Protection Agency (U.S.A.) Superfund 1992. Headquartered in Calgary, Alberta, Mr. Fortune is also a member of the Board of Directors.

Epizym Biosystems Ltd.

A joint venture of Epicore Networks Inc. and OCS Group of Surrey, England, Epizym Biosystems Ltd. was formed in April 1993 to market cleaning and sanitation products and environmental services in countries served by OCS. One of the largest cleaning and maintenance companies in the United Kingdom, OCS provides building and grounds maintenance, industrial cleaning and catering services in more than 15 countries. It provides services to over 10,000 commercial, institutional and health care facilities in the United Kingdom alone. During the past year, Epizym Biosystems has concentrated on the development of cleaning and sanitation product opportunities with the OCS Group and on product testing in the agriculture market. The company has also been developing relationships for marketing other Epicore products.

P.T. Environmental Network Indonesia

Previously the licensee for the Epizym Series of products in Southeast Asia, PT Environmental Network Indonesia became a wholly-owned subsidiary of Epicore during the past year. The company has been aggressively pursuing market development opportunities which exist in Southeast Asia, especially in the areas of cleaning and sanitation, aquaculture, soil remediation and waste water treatment.



Strategy session at the Calgary head office. Bob Millar, Senior Vice President Marketing (at the white board), leads a discussion with Dr. Stewart Campbell, Vice President Commercial (left) and David Hunt, Chief Financial Officer.



Since early in this century, industrialized nations of the world have developed and manufactured a profusion of chemicals.

Many chemicals were designed to help industry respond to the demands of an increasingly sophisticated consumer society. However, some (like refrigerants) had dual personalities; undesirable characteristics came along with the useful attributes. Now, society – concerned about the future of the earth's environment, but unwilling to give up comfortable standards of living – is demanding more environmentally responsible products.

Harsh chemicals are the basis of many industrial and commercial cleaning compounds. While performing their cleaning jobs, some chemical compounds also corrode metals, plastics and ceramics. They can be harmful to humans, plants and animals. Now, business, industry and individual consumers are demanding cleaning compounds that contain no toxic or hazardous chemicals, acids, caustics or solvents and are biodegradable.

The technologies on which Epicore's products are based have potential commercial applications in virtually every industrial sector. Our challenge has been to narrow the options and focus on situations in which our products can solve a specific problem or perform a certain job—and do it cost-effectively, thus adding value for the user.

At the present time, we are concentrating on products which have applications in cleaning and sanitation, agriculture, aquaculture, food processing, waste water treatment, pollution control and environmental remediation. These products are suited to a variety of commercial, industrial and institutional users.

OUR PRODUCTS

"Epizym" is the trade name given to our first series of products which, for marketing purposes, are organized into product lines aimed at specific user groups. Epicore has identified applications for products in the Epizym Series for municipal and industrial waste water treatment, special waste handling and treatment (contaminated soil, sludge and groundwater) and oilfield production, in addition to the three markets noted here in more detail.

Sanitation and Building Maintenance

The sanitation and building maintenance industry was a logical starting point for Epicore because of its joint venture with OCS. This market includes commercial, industrial and food service cleaning as well as sanitation products. Epizym-ST and Epizym-DT are the first products in what will become a line of complementary cleaning, sanitation and building maintenance products.

Epizym-ST and Epizym-DT can be used by hotels, motels, food plants, schools, restaurants, hospitals and other institutions. Both products are available now as dry formulations and will also be produced in liquid format in the fall of 1994. Epizym-ST can be used with septic tanks, latrines, drain fields and composting toilets as well as other sanitary waste holding tanks. It biodegrades and liquifies sanitary waste, restores and maintains biological cleansing activity. It reduces the potential for sewage back-ups, health hazards, environmental pollution and noxious odours. Epizym-DT is a drain and grease trap cleaner which biodegrades grease, fats, soaps and food waste buildup in drains and plumbing systems. It also eliminates the source of foul-smelling odours.

Aquaculture

Fish and shrimp farms represent a market in which Epicore's products can improve harvesting output. Epicore's first aquaculture product is Epicin, a water treatment for fish and shrimp ponds. It is a highly concentrated, biological complex containing a blend of genetically selected, non-pathogenic, antibiotic-resistant microorganisms. Epicin utilizes the ammonia produced by the fish and shrimp waste, enzymatically converting the toxic ammonia into non-toxic substances. This process safely reduces toxic waste levels, but does not disrupt the natural ecosystem. In addition, the resultant substances actually become part of the food chain.

Trials of Epicin are being conducted with major prawn farms in Southeast Asia. Substantial potential for Epicin and other aquaculture products exists in a variety of geographic locations around the world.

Agriculture and Horticulture

Epicore's first agricultural/horticultural product being brought to market is Epizym-AW, a product which liquifies and deodorizes many types of animal and poultry waste. It digests and stabilizes animal waste, liquifies solids for easier handling and lower disposal costs, reduces sludge volume and increases effective manure storage capacity. With the use of Epizym-AW, ammonia emissions inside livestock barns are reduced, creating a safer working environment, and unpleasant odours are reduced when manure slurry is spread on pasture and crop lands.

Epizym-AW has been successfully tested in England by the Agriculture & Dairy Association of Scientists (ADAS), an executive agency of the Ministry of Agriculture, Fisheries and Food. Tests confirmed that Epizym-AW enhances the liquefaction of manure and reduces ammonia odours.

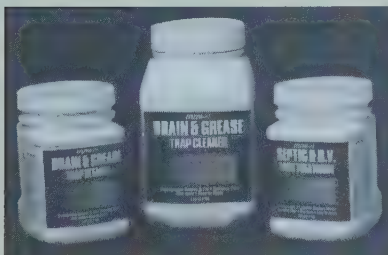
Because of the critical nature of waste disposal for Europe's agricultural industries, Epicore is moving quickly in discussions with other government/industry agencies which can be instrumental in endorsing and supporting the use of Epizym-AW. In Western Canada, the location of major pig, dairy, beef and poultry operations, Epizym-AW is involved in commercial trials and is now being introduced to agricultural markets.



Waste disposal is a growing problem for the agricultural industry, especially pig, cattle and poultry producers.

In Europe, disposal of animal waste is a major constraint on expansion of the livestock industry, as inadequate disposal contaminates ground water and creates intolerable manure odours. In Holland, the government has set an objective to reduce the ammonia in livestock operations by 50 percent by the year 2000. In the UK and other European countries, complaints of odours from livestock operations are resulting in increased regulatory controls. Complaints are even being heard in North America, where urban development continues to encroach on the once "wide open spaces" of farm and ranch land.

A deodorizer addresses only part of the problem. A more comprehensive solution lies in a product that liquefies waste, making it more efficient to store and pump through liquid slurry systems, and reduces ammonia emissions.



High-quality packaging for Epizym products features distinctive labels and user-friendly containers.

The major recapitalization completed this fiscal year substantially improved Epicore's financial position. The \$12 million equity issue provided the cash reserves necessary to purchase the Epizym Series, construct a research and production facility and pursue identified market opportunities. The significant costs incurred to complete this recapitalization and reorganization have increased the loss this year.

REVENUES

The lack of liquidity in the latter half of 1993 severely eroded the Company's position in a primary market area. As a result, product and service revenues declined to \$53,000. Interest earned on short term investments contributed \$127,000.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs increased \$1,114,000 over last year. A portion of this increase is due to increased administration and marketing costs associated with the expansion of activities. Much of the increase, however, is attributable to non-recurring costs related to renegotiation of major distribution agreements, unsuccessful financing efforts as well as the successful equity issue, write off of uncollectable receivables and a reduction in the value of inventory.

OTHER EXPENSES

Amortization has increased \$194,000 due largely to the acquisition of the Microbial Products and Processes. Financing costs declined over last year due to the repayment of shareholder loans and other debt in January, 1994.

REORGANIZATION AND RESTRUCTURING

This year Epicore wrote off the balance of the advances to related companies. These companies were controlled by major shareholders of Epicore prior to the reorganization. Epizym Biosystems, the Company's 50% owned U.K. joint venture, has continued to incur costs associated with conducting demonstration trials of the Epizym products and expansion of markets throughout the U.K.

Reorganization costs include \$377,000 of non-recurring costs directly attributable to the reorganization and restructuring of the Company's operations. These include legal fees, lease costs of premises no longer used by Epicore and the direct costs of settling a royalty agreement.

The sale of DGS Computers has resulted in a loss of \$95,000. This includes an operating loss of \$77,000 and the forgiveness of \$97,000 of intercompany advances offset by the negative carrying value of \$79,000.

CASH FLOW AND LOSS

Cash used by operating activities increased to \$2.7 million. The increase in operating loss and cash outflow resulted from the reorganization and expansion of operating activities as explained above.

Per share results improved slightly to a loss of \$0.18 per share from \$0.19 due to an increase in the weighted average number of shares outstanding during the year.

CAPITAL EXPENDITURES

The purchase this year of the microbial products and processes from Worne Biotechnology Inc. (for \$2.7 million) and the construction of a research and production facility (costs incurred to June 30, 1994 were about \$490,000) are fundamental to Epicore's future success.

Additional expenditures were incurred in setting up offices in London, Jakarta and Mt. Holly and in implementing effective communication technology between all locations.

INCOME TAX POOLS

The losses incurred by the company plus expenditures for capital and other assets have generated income tax pools which will be available to shelter future income. The Canadian subsidiaries are being wound-up in a manner to preserve the majority of their tax pools.

LIQUIDITY

Epicore's financial position has improved substantially over last year. At June 30, 1994 \$6.5 million was held in bank accounts and short term investments. Epicore's investment policy is to ensure security of principal, provide a reasonable yield and ensure funds are always available to meet operating requirements.



MANAGEMENT'S REPORT

To the shareholders of Epicore Networks Inc.

Management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for ensuring that all other financial and operating information presented in this annual report is consistent with such financial statements. Management has established and maintains a system of internal controls which are designed to provide assurance that assets are managed efficiently and to facilitate the preparation of reliable and timely financial information.

Independent auditors, appointed by the shareholders of the Company, have examined the financial statements and their opinion is expressed herewith. The Audit Committee, members of which are non-executive directors, has reviewed these statements with management and has approved them on behalf of the Company's Board of Directors.

A handwritten signature in dark ink, appearing to read "J. M. Fraser".

J. M. Fraser,
Chief Executive Officer

A handwritten signature in dark ink, appearing to read "D. N. Hunt".

D. N. Hunt,
Chief Financial Officer

As the oceans' traditional fishing grounds become depleted and fishing fleets are placed under tighter environmental controls, the farming of aquatic products will increase.

In 1991, 30 percent of the world shrimp harvest came from farms with a total of about one million hectares (2.5 million acres) of ponds. The shrimp farming industry is experiencing double digit annual growth.

Water quality is one of the most important environmental variables affecting production from ponds. Shrimp waste in large quantities becomes toxic to the animals and disrupts the natural ecosystem, resulting in fewer and lower quality shrimp. An increasing incidence of viruses wiping out shrimp farms can be attributed to overstocking, poor drainage, and improper management of accumulated wastes and effluent discharge.

Within this growing industry, producers want increased quality and quantity from their shrimp harvest. Chemical substances do not provide solutions to the problems as they are potentially harmful to the shrimp and the delicate ecosystem of the pond environment.

AUDITOR'S REPORT

To the shareholders of Epicore Networks Inc.

We have audited the consolidated balance sheets of Epicore Networks Inc. as at 30 June 1994 and 1993 and the consolidated statements of income and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 30 June 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read "BDO Renwamy Ward Mallett".

Calgary, Alberta
August 26, 1994

Chartered Accountants

EPICORE NETWORKS INC

*Consolidated Statements of Income and Deficit
for the years ended June 30, 1994 and 1993*

	1994	1993
Sales revenue	\$ 52,575	\$ 326,619
Other revenue	127,434	45,798
TOTAL REVENUE	180,009	372,417
General and administrative	2,787,350	1,672,851
Amortization	331,573	137,783
Financing costs	65,166	164,639
TOTAL EXPENSES	3,184,089	1,975,273
LOSS FROM OPERATIONS	(3,004,080)	(1,602,856)
Write-down of advances to related parties	(97,992)	(348,069)
Loss of an affiliated company	(137,000)	(45,000)
Reorganization costs (Note 5)	(376,537)	—
LOSS FROM CONTINUING OPERATIONS	(3,615,609)	(1,995,925)
Discontinued operations (Note 7)	(95,192)	49,110
NET LOSS FOR THE YEAR	(3,710,801)	(1,946,815)
Deficit, beginning of year	(3,323,515)	(1,376,700)
DEFICIT, END OF YEAR	\$ (7,034,316)	\$ (3,323,515)
LOSS PER SHARE	\$ (0.18)	\$ (0.19)

The accompanying notes are an integral part of these financial statements.

EPICORE NETWORKS INC.

*Consolidated Balance Sheets
as at June 30, 1994 and 1993*

	1994	1993
ASSETS		
Cash and short term investments	\$ 6,454,746	\$ —
Accounts receivable (Note 2)	314,155	414,606
Inventory	94,622	42,274
Prepaid expenses	21,732	116,614
CURRENT ASSETS	6,885,255	573,494
DUE FROM RELATED PARTIES (NOTE 9)	—	97,992
INVESTMENT IN AN AFFILIATED COMPANY (NOTE 1)	—	5,000
PLANT AND OFFICE EQUIPMENT (NOTE 3)	597,455	43,117
MICROBIAL PRODUCTS AND PROCESSES (NOTE 3)	2,720,787	333,724
	\$ 10,203,497	\$ 1,053,327

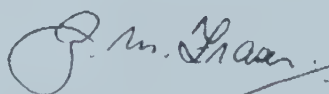
LIABILITIES AND SHAREHOLDERS' EQUITY

Bank indebtedness	\$ —	\$ 14,958
Accounts payable	461,556	203,442
Net liabilities of discontinued operations	—	2,067
CURRENT LIABILITIES	461,556	220,467
SHARE OF EQUITY DEFICIENCY IN AN AFFILIATED COMPANY (NOTE 1)	132,000	—
SHARE CAPITAL (NOTE 4)	16,644,257	4,156,375
DEFICIT	(7,034,316)	(3,323,515)
SHAREHOLDERS' EQUITY	9,609,941	832,860
	\$ 10,203,497	\$ 1,053,327

On behalf of the Board



Director



Director

The accompanying notes are an integral part of these financial statements.

EPICORE NETWORKS INC.

*Consolidated Statements of Changes in Financial Position
for the years ended June 30, 1994 and 1993*

	1994	1993
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Continuing operations		
Net loss for the year	\$ (3,615,609)	\$ (1,995,925)
Items not involving cash	566,565	530,852
Changes in non-cash working capital balances	399,032	(201,803)
Discontinued Operations	(95,192)	(8,327)
	(2,745,204)	(1,675,203)
FINANCING ACTIVITIES		
Issue of common shares net of issue costs	12,487,882	2,010,211
	12,487,882	2,010,211
INVESTING ACTIVITIES		
Purchase of plant and office equipment	(614,169)	(24,209)
Purchase of microbial products and processes	(2,658,805)	(34,587)
Due from related parties	—	(178,294)
Investment in an affiliated company	—	(50,000)
	(3,272,974)	(287,090)
INCREASE IN CASH	6,469,704	47,918
Bank indebtedness, beginning of year	(14,958)	(62,876)
CASH (BANK INDEBTEDNESS), END OF YEAR	\$ 6,454,746	\$ (14,958)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 1994 and 1993

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Company:

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated.

(b) Inventory

Finished goods and raw materials are stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

(c) Capital and Other Assets

Capital and other assets are recorded at cost. Amortization is provided on the straight-line basis as follows:

Plant and office equipment – 3 to 5 years*

Microbial products and processes – 10 years

* Once operational the plant equipment will be amortized over the useful life of each major component.

(d) Investments

The Company accounts for its 50% interest in Epizym Biosystems Limited ('Epizym') using the equity method, whereby the investment is initially recorded at cost and the carrying value adjusted thereafter to reflect the changes in the Company's share in the equity of the investee. As Epizym's year end is March 31, adjustments are made based on interim financial statements. Epicore plans to continue to support the operations of Epizym.

(e) Foreign Currency Translation

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the then prevailing exchange rate. At the year end, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. Resulting foreign exchange gains and losses are included in income in the current period.

2. ACCOUNTS RECEIVABLE

Included in accounts receivable is \$4,000 (1993 – \$35,000) which is due from Directors and employees.

3. CAPITAL AND OTHER ASSETS

	1994		1993	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 196,065	\$ 88,014	\$ 72,083	\$ 28,966
Plant and equipment	489,404	—	—	—
Plant and office equipment	\$ 685,469	\$ 88,014	\$ 72,083	\$ 28,966
Net book value	\$ 597,455		\$ 43,117	
Microbial products and processes	\$ 2,693,397	\$ 155,136	\$ 94,592	\$ 36,194
Goodwill	372,398	189,872	372,398	97,072
Microbial products and processes	\$ 3,065,795	\$ 345,008	\$ 466,990	\$ 133,266
Net book value	\$ 2,720,787		\$ 333,724	

As a result of acquiring the microbial products and processes during the year (see Acquisitions) the Company now owns both the processes and the previously acquired distribution rights of the microbial products. Accordingly, the balance of goodwill and distribution rights attributable to the previous acquisition have been included with microbial products and processes.

4. SHARE CAPITAL

- (a) Authorized - an unlimited number of voting common shares
- an unlimited number of non-voting preferred shares

(b) Issued	1994		1993	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Balance, beginning of year	21,013,434	\$ 4,156,375	24,014,434	\$ 2,146,164
Shares issued for cash (net of issue costs of \$827,000, 1993 – \$100,000)	4,400,000	12,176,882	1,000,000	1,900,000
Shares issued for cash on exercise of Director and employee stock options	400,000	311,000	175,000	98,250
Shares issued in exchange for consulting services			4,000	11,960
Shares issued on acquisition of microbial products and processes	1,000,000	—		
Shares issued on acquisition of Environmental Biotechnologies Inc.			100,000	1
Net shares cancelled pursuant to the Reorganization and Discontinued Operations	(7,385,445)	—		
Cancellation of shares			(4,280,000)	—
Balance, end of year	19,427,989	\$ 16,644,257	21,013,434	\$ 4,156,375

- (c) The Company has granted the following stock options:

Number of shares	Option price per share	Expiration Date
300,000	\$ 0.43	December 31, 1995
450,000	\$ 0.90	December 10, 1995
150,000	\$ 1.35	January 26, 1995
150,000	\$ 1.80	July 27, 1996
450,000*	\$ 1.90	November 17, 1998
600,000	\$ 2.10	October 18, 1998
200,000*	\$ 3.45	December 13, 1998
500,000	\$ 5.00	January 4, 1999

* These stock options had not been approved by the Alberta Stock Exchange as at August 26, 1994.

The Company has also issued a warrant to purchase 1,000,000 shares at \$5.00 per share. The warrant expires December 31, 1998.

(d) Escrowed shares

The reorganization of the company resulted in the cancellation or amendment of all previous escrow agreements. At June 30, 1994, 3,183,000 shares issued to an Officer and Director were held in escrow directly and indirectly (see Reorganization). The acquisition of microbial products and processes resulted in 1,000,000 shares being issued and held in escrow (see Acquisitions).

5. REORGANIZATION

On January 5, 1994 Epicore completed a corporate and financial reorganization; specifically

- a) Private placement of 4,000,000 shares in the United Kingdom at \$3.00 per share.
- b) A Director of the Company agreed to the cancellation of 5,000,000 escrowed shares plus options to acquire 300,000 shares.
- c) An Officer and Director of the Company agreed to the cancellation of 1,600,000 shares. These shares plus an additional 3,400,000 had been held in escrow subject to specified performance criteria. This agreement was amended to provide for the timed release of the remaining shares over the period December 30, 1993 to December 1, 1996. These shares are not eligible to vote until issued.

6. ACQUISITIONS

- a) On August 1, 1992 the Company purchased Environmental Biotechnologies Inc. for 100,000 shares valued at \$1.00.

The acquisition has been accounted for by the purchase method as follows:

Current assets	\$	105
Current liabilities		22,987
Working capital (deficiency)		(22,882)
Purchase price		1
Add acquisition costs		9,672
		9,673
Excess of cost of acquisition over book value of net assets acquired	\$	32,555

The excess was allocated to distribution rights. This agreement has been cancelled and the excess classified as microbial products and processes (see Capital and other assets).

- b) On January 5, 1994 Epicore purchased certain microbial products and processes from Worne Biotechnologies Inc. for US\$ 2,000,000 plus the issuance of 1,000,000 shares. These shares are subject to a performance escrow and are to be released on the basis of one share for each \$3.00 of net cash flow. Any shares not released by the fifth anniversary of the agreement will be cancelled. These shares are not eligible to vote until earned by the shareholder.
- c) On March 12, 1993, the Company subscribed for 50% of the outstanding common shares of Epizym Biosystems Limited, an environmental biotechnology company. Cash consideration paid for the shares was \$50,000.

7. DISCONTINUED OPERATIONS

As part of the reorganization, Epicore sold its computer company, D.G.S. Computers Inc.. The purchasers agreed to the cancellation of a net 785,445 shares held subject to an escrow agreement and to the cancellation of options to acquire 300,000 shares. The sale resulted in a loss of \$95,192 including an operating loss of \$77,000 for the first six months of the fiscal year and the forgiveness of \$97,000 of intercompany advances to the subsidiary. D.G.S. Computers Inc. had a negative carrying value of \$79,000.

The Assets, Liabilities and Results of Operations to December 31, 1993 have been removed and are shown separately in the financial statements.

8. INCOME TAXES

The Company and its subsidiaries have approximately \$2,900,000 of non-capital tax losses carried forward for which the benefits have not been recognized in these financial statements.

9. RELATED PARTY TRANSACTION

(a) Included in Financing costs is interest expense of \$ 43,000 (1993-\$151,000) paid to shareholders for advances made to the Company during the year.

(b) During the year ended June 30, 1993 the Company acquired Environmental Biotechnologies Inc., from two directors of the Company (see Acquisitions).

(c) The Company paid consulting and other fees of \$891,000 (1993 – \$403,000) to four Directors of the Company.

(d) The Company wrote-off \$80,838 (1993 – \$240,000) which had been advanced to Natures Network Inc., and \$17,154 (1993 – \$108,069) which had been advanced to Kelmat Foods Inc., companies which were controlled by major shareholders of Epicore prior to the reorganization.

10. COMMITMENTS AND CONTINGENCIES

(a) The Company has entered into two consulting agreements. One is for \$120,000 per year expiring June 24, 1997 and the other is for \$120,000 U.S. per year, expiring April 30, 1996.

(b) The Company has leased various premises for which the minimum annual lease payments are approximately as follows:

1995/96	\$	200,000
1996/97	\$	197,000
1997/98	\$	186,000
1998/99	\$	186,000
1999/00	\$	153,000

(c) The Company has been named defendant in a lawsuit. In the opinion of management, this claim is without substantial merit and no provision has been made for it in the accounts. However, should any loss result from the resolution of this claim, such loss would be accounted for as a prior period adjustment.

11. SEGMENTED INFORMATION

The Company currently operates in only one segment, the environmental biotechnology field. Sales made by D.G.S. Computers prior to its disposition by the company were \$606,474 (1993 – \$1,515,528).

12. LOSS PER SHARE

Loss per share was calculated using the weighted average of outstanding shares that participate in the loss of the Company. The calculation for fully diluted earnings per share was not materially dilutive and thus has not been disclosed.

13. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform to the current year's presentation.

BOARD OF DIRECTORS

(As at August 15, 1994)

William Lomow ^{(1),(2)}
Chairman
Epicore Networks Inc.
Calgary, Alberta

Ian Fortune ⁽¹⁾
Executive Vice-President
Epicore Networks Inc
Calgary, Alberta

J. M. (Ian) Fraser ⁽¹⁾
Chief Executive Officer
London, England

Peter Goodliffe ⁽²⁾
Managing Director,
Office Cleaning Services Limited.
Kent, England

Pauli J. Musto ⁽²⁾
Vice-President
Eurocan Pulp & Paper Co
Vancouver, B.C.

Howard E. Worne, Ph.D., Sc.D. ⁽¹⁾
President
Worne Biotechnology Inc
Mt. Holly, New Jersey

OFFICERS AND KEY PERSONNEL

William Lomow
Chairman

J. M. (Ian) Fraser, C.A.
Chief Executive Officer

Stewart J. Campbell, Ph.D., P.Ag.
Vice President, Commercial

Ian Fortune
Executive Vice President

David N. Hunt, C.A.
Chief Financial Officer

Robert S. Millar
Senior Vice President,
Marketing Epicore Networks Inc.

John Stein, Q.C.
Secretary

Ian H. Murray
General Manager, Indonesia

⁽¹⁾ Member of the Management Committee

⁽²⁾ Member of the Audit Committee



EPICORE NETWORKS INC.

CORPORATE HEADQUARTERS

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LEGAL COUNSEL

Parlee McLaws
3400, 707 - 8th Avenue S.W.
Calgary, Alberta T2P 1H5

MAIN BANK

Alberta Treasury Branch
Box 5396, Station A
Calgary, Alberta T2H 1K8

REGISTRAR AND TRANSFER AGENT

R-M Trust
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

STOCK EXCHANGE LISTING

Alberta Stock Exchange
Trading Symbol: EPN



Directors and Officers attending the opening of the Mt. Holly plant included (left to right): William Lomow, Ian Fortune, Dr. Worne, John Stein, Ian Fraser, Peter Goodliffe.



EPICORE NETWORKS INC.

1994 Annual Report